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GUINEA

SMALL PROGRAM STRATEGY STATEMENT, FY 86
(UPDATE)

Part I

ECONOMIC OVERVIEW AND POTENTIAL

With a mid-1983 population estimated at 5.9 million and a GNP per capita of about U.S. dollars 300 (1981 estimate), Guinea is one of the world's least developed countries. Life expectancy at birth was estimated in 1980 to be 44 years (among the lowest in the world) and infant mortality rates are still high at 30 percent of the 1-4 years age group. Calorie intake is only 84 percent of requirements and 88 percent of the population is deprived of access to safe water. About 80 percent of the population is illiterate, and a little more than a third of the children are enrolled in primary school. Most of the population, particularly in rural areas, lives at the margin of poverty.

Guinea's economy is divided into an agricultural sector that produces largely at subsistence levels, provides the livelihood of over four-fifths of the population and contributes

almost half of the GDP, and a modern sector comprising on the one hand a few mining enclaves (Guinea is the world's largest bauxite exporter) that generate 97 percent of the country's export earnings, and a variety of state enterprises in industry and other sectors which absorb most public investment, domestic credit, foreign borrowing and imports.

At independence in 1958, the government pursued a consistent policy to replace a private market-oriented economy thriving on agriculture with a command economy promoting state ownership of the means of production, collective rather than private activities, and allocation of resources through central decisions rather than market mechanism. By 1973, the massive investment to create the public sector, largely financed through domestic credit expansion, had led to widespread inflation and balance of payments difficulties.

Increasing unavailability of consumer goods to smallholders and unrealistic producer prices forced small farmers to restrict their production to subsistence levels, and led to a decline in the per capita incomes in rural areas and to increasing imports of foodstuffs.

The productive and financial bases for a more dynamic economy have been strengthened since 1973 owing to the opening of two major bauxite mines. Overall economic activity

increased at an average rate of 3.2 percent per annum between 1973-1979. The rapid real growth of the mining sector at 20 percent per annum increased its contribution to GNP from 4.2 percent in 1973 to 18.5 percent in 1979. Massive investments were also made to mechanize state agricultural operations. Still, rural sector output stagnated and its share of GNP decreased from 58 percent to 41 percent between 1973 and 1979. The main reasons for this were the lack of producer incentives, misdirected application of mechanization, drought, and crop plagues in some years.

Since 1976, as production rose to capacity in Guinea's new bauxite mines, there has been little growth in the GNP. To cope with increased domestic demand and to increase production, in recent years the GOG has taken steps towards decentralization and liberalization of the economy, and is considering further advances in the areas of money, public enterprises, investment planning, foreign exchange management and pricing. The government has become more sensitive to the need for planning, investment programming and project preparation, and lately has been accepting UN technical assistance as well as assistance from the World Bank and other donors through specific projects.

Despite some progress, Guinea is still confronted with a serious balance of payments problem and slow economic growth,

including continued stagnation in the agricultural sector. Its economy can neither generate enough foreign exchange to satisfy total demand for domestic consumption, service external debt and finance required capital and recurrent expenditure of existing and new projects, nor attract sufficient external capital inflows to cover its balance of payments current account deficit and foreign debt amortization. The domestic currency remains seriously overvalued and thus perpetuates a distorted price system and an unattractive environment for producers, affecting output and export performance. Essential economic services are curtailed, and arrears on external debt are accumulating. The main productive sectors, agriculture and livestock, produce essentially at subsistence levels because of inadequate producer incentives, inputs, extension services, infrastructures and marketing facilities. Guinea's present pace of economic development does not appear to permit a significant increase in the generation of domestic savings for self-sustained growth and development.

Guinea nevertheless has a vast agricultural potential. Its abundant water resources and varied topography and soils should enable the country to produce a wide range of agricultural crops for local processing and consumption, and for export. Historical analyses and comparisons with neighboring countries suggest that with adequate inputs and

infrastructure development as well as appropriate pricing and other policies, Guinea should be able to satisfy all of its needs for rice and other food crops, as well as produce greater quantities of coffee, cotton, oil palm products, copra, pineapples, and livestock for local processing and export.

PART II

RECENT ECONOMIC DEVELOPMENTS

The Government of Guinea is now reassessing many of its past policies and is in the process of defining a new development strategy. This change has been prompted by a number of factors, including the inability of the earlier approach to produce satisfactory results in production and economic development. Guinea's favorable experience with Western multinationals in the major new bauxite extracting operation (CBG), which now accounts for some 70 percent of the country's foreign exchange earnings, has also contributed to more positive attitude toward foreign investment, private enterprise, and Western economic techniques.

In making important gestures toward expanding economic ties with the West and in responding to domestic needs for greater productivity, the government has already shown a willingness

to undertake specific economic policy changes. One major improvement was abolishing the government's complete control in the marketing and distribution of agricultural produce. A major policy shift in the agricultural production side was the 1983 decision to make the first 210 state farms (FAPA) autonomous by May 1983 and the remainder, a year later. Other recent policy improvements include the decontrolling of prices in parallel markets, legalizing trade in all but a few "essential" foods, introducing better management techniques in state-run industries, creating a private enterprise promotion office in the Presidency and raising prices on some controlled items.

Because of the change in policies and attitudes on the part of the government, it now appears that the potential for change is substantially higher in Guinea. For example, in a 1983 speech by President Toure, inefficient government farms were criticized and stress was placed on a return to the private sector. More significantly, at the recently concluded 12th National Congress in November 1983, the President confirmed the intention to continue economic liberalization and announced a decision to eliminate food imports at the end of 1984. Significant also was the fact that the rallying cry of the nation has been changed from "Prêt pour la Révolution" to "Prêt pour la Production". To the extent this reflects future policy, Guinea's economic prospects will have improved.

Finally, although the government continues to take important steps in expanding economic ties to the West and in improving the economic policies governing domestic production, few expect Guinea to embrace capitalism in the near future. The question which still needs to be answered is how far Guinea will go in terms of further liberalization and reform. A major sign will be whether, and to what extent, the government adopts important policy recommendations from World Bank and IMF missions which recently visited Guinea, e.g., to continue trade liberalization especially for export products, to decrease emphasis on collective agriculture and encourage smallholder farming, to correct resources misallocation by strengthening investment planning, and to strengthen weak institutions in the agricultural sector. Also involved is a politically difficult decision regarding devaluation of the national currency -- the syli -- while at the same time undertaking the complementary policy reforms that will render the devaluation effective.

PART III

DEVELOPMENT OBJECTIVES

In view of the crisis in the agricultural sector, U.S. assistance to Guinea must focus on the food and agricultural sector. It is the sector which supports the vast majority of the population and which demonstrates impressive development

potential. In keeping with agency guidances (see Food and Agricultural strategy paper dated 25 November 1983), our objectives in this sector are to enable Guinea to become self-reliant in food and achieve economic growth. Two related subobjectives are to increase food availability and to improve food consumption. In the following section, we will state how we intend to utilize the four major instruments of development to enhance the achievement of these goals.

PART IV

THE USE OF MAJOR INSTRUMENTS TO ACHIEVE OBJECTIVES

A. Policy frameworks

Guinea provides a classic case supporting the position that economic policies do matter. Unfortunately, in the case of Guinea, economic policies have led to a decline in the overall level of development. Within the past quarter of a century, Guinea has been transformed from one of West Africa's major agricultural exporters to a nation of subsistence farmers. Activities in the agricultural sector have been affected adversely through national policies which effectively preclude the private sector from trading and marketing agricultural produce. This has been reinforced by policies keeping the official agricultural prices for important food items at only a fraction of the total production costs.

One such example is the production of rice, the most important activity in Guinea's agricultural sector by both small farmers and mechanized brigades. Rice also represents a significant import in a country which has the potential for the export of rice and other agricultural products. At least partly because of policies adopted by the GOG, rice imports have grown rapidly from 51,000 metric tons in 1977 to 83,000 metric tons in 1981 and will likely reach 100,000 metric tons in 1984. At the same time, rice production has fallen from 413,000 tons in 1973 to 347,000 tons in 1979. The estimated 1982 figure was 300,000 tons. Since 1982, indications are that production has increased in border areas for sale or barter in neighboring hard currency countries. It is our judgment that the the adoption of more liberal production and marketing policies would lead to a significant increase in rice production, in view of on-going and planned rice production projects. Such a policy reform could enhance the prospects of food self reliance in the foreseeable future.

The scope of U.S. influence in this area is limited. The lead in policy dialogue on macroeconomic issues has been assumed by the IMF, and on agricultural sector policies - including rice pricing policy - by the World Bank. We maintain close liaison with both agencies and would presumably participate in any structural readjustment assistance

package tied to recommended economic reforms. We continue to maintain a dialogue with the GOG on this and through Title I self-help measures to encourage the GOG to continue the economic liberalization program.

B. The private sector

Given the present political/economic environment in Guinea, the strategic approach to increased use of the private sector as a development tool must combine promotion of the U.S. private sector with a supportive, long-term effort to remove economic policy obstacles to indigenous private sector development. The GOG has gone to great lengths to convince western industrialized countries of its desire to attract foreign investment. This appeal to foreign investment presents us with an opportunity to engage the GOG policy makers in a constructive dialogue regarding the relationship between the development of the foreign and indigenous private sectors (i.e., that those policy reforms which promote foreign investment will also increase the likelihood of domestic private sector activity).

Following an exchange of views between the Presidents of the U.S. and Guinea in mid-1982, a Presidential Agribusiness Task Force (ATF) made up of U.S. private sector businessmen visited Guinea early in 1983. The aim of the ATF was to explore the climate for agribusiness endeavors through focus

upon tangible and specific project activities. The ATF reviewed the investment potential of six agribusiness sectors (coffee, pineapple, fishing, vegetable farming, cattle and sugar). A viable fishing project was identified which will likely lead to a \$3.5 million investment project. The ATF visit also resulted in the preparation and approval of an USAID financed Agribusiness Promotion Project which is a 24-month, \$800,000 (AID) effort to assist the Government of Guinea meet food needs and increase agricultural production by strengthening the Government's capability to promote agribusiness development. The project will provide a resident technical advisor and commodity support to the Government's National Agribusiness Promotion Office (NAPO), and funds to define and promote selected agribusiness activities in Guinea.

AAO/Conakry believes that the agribusiness project could provide a useful vehicle for policy dialogue in that specific policy reforms can be visibly linked to specific investment opportunities. In this way, AID can lend tangible reinforcement to the policy reforms of the World Bank and IMF.

C. Technology transfer and research

During its long period of isolation in the 60's and early 70's, Western research results and technology were largely unknown and untried in Guinea. Regional and international agricultural research centers such as International Institute

of Tropical Agriculture at Ibadan, Nigeria, made impressive advances, but there was no adaptive research or extension service in Guinea to get the results into the hands of the small farmer. To respond to this constraint, two USAID activities are now in operation: a series of small farm oriented agricultural projects and an appropriate technology activity.

We are just finishing a \$14.1 million project to provide infrastructure and facilities to upgrade existing Guinea research centers and establish a new training and applied research center. A follow-on activity, the Smallholder Production Preparation Project, will provide technical assistance to render the infrastructure operational. A major objective of the project will be to establish a practical research approach that can develop, experiment, adapt, test and support elements of livestock-crop systems which are suitable for extension by a pilot extension service.

The long-term goal of the project is to bring into being a continuous stream of tested crop packages for a wide variety of agro-ecological zones in the country that satisfy technical, economic, risk and other criteria relevant to their adoption by family farms. A subordinate objective is to support the establishment of an extension service which addresses the needs of farmers and is capable of supporting the introduction and diffusion of technical innovations.

The Guinea Appropriate Technology Project is a 24-month effort to: (1) introduce basic technologies that have proven successful elsewhere, but have yet to be disseminated in Guinea; (2) adapt the selected technologies to Guinean conditions through a testing and evaluation program; (3) work with appropriate GOG institutions to develop an indigenous capability to review, adapt and disseminate appropriate technologies. The technologies chosen are Cinva-Ram block production and improved wood/charcoal burning stoves. The project will provide for institutional support to the National Productivity Center through provision of a resident technical advisor and establishment of an appropriate technology documentation center.

D. Institutional development

The critical development sector in Guinea is agriculture; within this sector effective efforts must concentrate on smallholder agriculture. Available analysis leaves little doubt that the GOG's ability to provide basic support to the agricultural sector is severely limited by a lack of physical facilities, trained personnel, research and outreach capability, and a dearth of basic farm level information. The first phase of our agricultural project, now virtually complete, addressed the first of these constraints, i.e., the physical facilities. The second phase, to begin in FY 84, focuses on strengthening the capacity of the indigenous agricultural institutions to provide basic support to the agricultural sector.

Project activities will be centered primarily at the Tindo Training and Research Center located near Faranah. Technical advisors provided under the grant will carry out adaptive research which will include on-farm testing of of selected innovations. Further, research capacities will be strengthened at the National Institute for Agricultural Research and Extension at Foulaya. Finally, the National Agricultural College at Faranah will receive project support to develop farming systems research and extension approached as key components of its curriculum. Also, several of the experts working at the Tindo Center will teach at Faranah College in appropriate areas.

E. Special role of participant training

There is a continuing shortage of Guineans who can analyse, plan and direct the country's development efforts. Because of limitations, a country-wide effort to train and up-grade Guinea's human resource base is not feasible. Thus, our approach has been to concentrate training funds on those areas which are either directly related to or supportive of ongoing and planned USAID projects. Under the first agricultural project, seven Guineans were trained in U.S. universities in agronomy and related agricultural science. Six have returned and are directly involved in the follow-on project. Under the follow on agricultural project, 54 person-years of U.S. and third country training will be provided over the next 5 years. USAID/Conakry also relies on three other

programs which provide short and long-term academic and technical training in Africa and the U.S.: the AFGRAD program, the AMDP program and SAFGRAD (now almost completed) (see 83 Conakry 3816). In FY 84, ten participants will be trained outside Guinea in specialties which reflect present and anticipated manpower shortages. (One WID seminar will be held in Guinea.) Participant training represents a major activity for USAID/Conakry; one which has high visibility and, we judge, provides a substantial return on our investment.

F. PL-480 and local currency as development resources

Guinea has been the beneficiary of an annual PL-480 program for the past 20 years. Recent Title I agreements average \$5 million and have consisted entirely of rice. The recent GOG announcement to suspend food imports by the end of 1984 is encouraging and indicative of the GOG concern for reducing dependence on imported rice and moving toward food self-sufficiency. We fully expect GOG actions to reduce commercial imports, but believe it is unrealistic to expect a rapid increase in domestic production to offset imports in the short run. Thus, we foresee a continued need for a PL-480 Title I agreement over the planning period in order to cover shortfalls until domestic production increases. Time is required to allow the GOG's economic liberalization policies to take hold and for sizable rice-growing projects to mature. Guinea is a traditional rice producer; with proper incentives, the country can eventually become self-sufficient and even an exporter of rice.

The local currency derived from the sale of Title I rice provides counterpart funds for USAID and other donor projects. At the end of 1983 the counterpart account (Type A) contained 426 million sylis. At the official rate this is \$18.5 million, but in terms of local purchasing power the account only represents about \$1.7 million. Regardless, utilization has been slow but recent attempts to accelerate utilization are showing results. In 1983, funds were made available for three new projects and the programming of the entire counterpart balance is included as a self-help measure in the last Title I agreement.

G. Other donor coordination

A mechanism for effective donor coordination has not yet been established in Guinea. To the extent that coordination exists, it is owing to the efforts of a few influential donors. The World Bank team which visited Guinea in November-December 1982 promoted donor coordination by including on the team representatives from CIDA, AID and the EEC. More importantly, the team was successful in focusing the attention of the GOG on the need for basic policy reform, thus supporting AID's objective in Guinea. A World Bank mission, which has been discussing a structural adjustment package with the GOG, continued to play a useful role in donor coordination.

As the tempo of our donor-financed activities in Guinea increases, the need for more effective donor coordination will grow. We support the IMF and the World Bank, which have emerged as leaders in the coordination, because their emphasis on a structural adjustment package probably best demonstrates to the GOG that a coordinated approach will lead to more rather than less donor assistance.

H. Africa objectives not addressed by mission strategy

With a USDH staff of three, USAID/Conakry must carefully select its priorities. Our core program addresses Bureau concerns in agriculture (Smallholder and Forestry projects); technology transfer (Appropriate Technology project); private enterprise (Agribusiness project), and health (the proposed CCCD follow-on will also add an infant diarrhea control component -- Oral Rehydration Therapy -- and a malaria control component).

A small staff coupled with the realities of GOG policies effectively precludes our participation in the primary, secondary and nonagricultural university education sectors. The GOG pronatalist stance limits our participation in the population sector.

PART V

| TOTAL RESOURCE REQUIREMENT 1984-1989 (FY \$000) | 1984 OYB | 1985 AAPL | PLANNING PERIOD | | | |
|--|--------------|--------------|-----------------|--------------|--------------|--------------|
| | | | 1986 | 1987 | 1988 | 1989 |
| I. Development asst. total: | <u>1,650</u> | <u>2,000</u> | <u>2,700</u> | <u>2,800</u> | <u>2,900</u> | <u>3,000</u> |
| Functional acct.: | | | | | | |
| - ARDN | 1,500 | 2,000 | 2,700 | 2,800 | 2,900 | 3,000 |
| - Health | 150 | - | - | - | - | - |
| II. ESF Total: | - | - | - | - | - | - |
| III. PL-480 total: | <u>5,088</u> | <u>5,304</u> | <u>5,200</u> | <u>5,200</u> | <u>5,200</u> | <u>5,200</u> |
| - Title I | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| - Title II (WFP) | 88 | 304 | 200 | 200 | 200 | 200 |
| TOTAL RESOURCES | <u>6,738</u> | <u>7,304</u> | <u>7,900</u> | <u>8,000</u> | <u>8,100</u> | <u>8,200</u> |

| DEVELOPMENT ASSISTANCE REQUIREMENTS: 1984-89 (FY\$000) | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| FUNCTIONAL ACCOUNT | | | | | | |
| I. ARDN total | <u>1,500</u> | <u>2,000</u> | <u>2,700</u> | <u>2,800</u> | <u>2,900</u> | <u>3,000</u> |
| - 675-0204 Smallholder Production Preparation | 700 | - | - | - | - | - |
| - 675-0212 Agribusiness Preparation | 800 | - | - | - | - | - |
| - 675-0207 Community Forestry II | - | 2,000 | - | - | - | - |
| - 675-0210 Smallholder Productivity | - | - | 2,700 | 1,800 | 2,900 | 3,000 |
| - New project start * | - | - | - | 1,000 | - | - |
| II. Health total ** | 150 | - | - | - | - | - |
| - 675-0205 Guinea integrated Eye Health (OPG) | 150 | - | - | - | - | - |
| Total DA | <u>1,650</u> | <u>2,000</u> | <u>2,700</u> | <u>2,800</u> | <u>2,900</u> | <u>3,000</u> |

* Agribusiness follow on

** Excludes regionally funded CCCD program. See text.

Resource requirements for FY 84 will total \$6.74 million: \$1.65 million D.A.; \$5 million PL-480 Title I (rice); and \$88 thousand for Title II World Food Program commodities. Development Assistance funds will support projects almost totally within the Agriculture and Nutrition Account (ARDN) except for a small allocation for a Health OPG (675-0205). The second and final year of funding will be provided from the ARDN account for project 675-0204 (\$700 thousand) as well as an LOP amount for project 675-0212 (\$800 thousand). An LOP amount from the Health Account will be provided for project 675-0205 (\$150 thousand).

In FY 85 resource requirements will be \$7.3 million, comprised of \$2 million in support of Development Assistance projects, \$5 million of PL-480 Title I and slightly over \$300 thousand for World Food Program Title II activities. In FY 85 the entire amount of Development Assistance (\$2 million) will be directed to the priority agriculture sector to fund a single new forestry project (675-0207).

In FY 86 the major new five-year agricultural project (675-0210) will receive its initial year of funding (\$2.7 million) and be incrementally funded through 1989 until the planned LOP amount of \$10 million has been provided.

PL-480 levels are projected to remain at essentially the same levels, i.e., \$5 million for Title I imports and \$200 thousand of WFP Title II activities through the period 1986-1989. In 1987, a \$1 million new start in agribusiness is projected.

AAO/Conakry fully supports the planning and implementation of several regional river basin development projects which are described in other planning documents; i.e., the Gambia River Basin and the Niger Basin, both of which are linked to Guinean country development. Also, AAO/Conakry is cooperating with the Regional Housing Advisor, Abidjan in the development of a housing investment guarantee which will help finance low-cost housing construction in Kamsar, site of the U.S. managed bauxite company (Compagnie des Bauxites de Guinee). The project is in the planning stages and consequently too early to identify the precise level of resource allocations required. We estimate that these projects would be prepared and ready for implementation in late FY 1985 or early FY 1986.

March 1984